

## Message Text

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PAGE 01 LONDON 03588 01 OF 02 080856Z

20/62

ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 FRB-01

INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01 L-02 H-02

DODE-00 PA-02 USIA-15 PRS-01 SAJ-01 /111 W

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R 072003Z MAR 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 9073

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 02 LONDON 03588

C O R R E C T E D C O P Y ADDED LAST LINE OF TEXT

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING MARCH 7

BEGIN SUMMARY: THE STOCK MARKET BOOM CONTINUES IN THE UK

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PAGE 02 LONDON 03588 01 OF 02 080856Z

BUT THE OTHER ECONOMIC INDICATORS, EXCEPT INFLATION, STILL

POINT DOWNWARD. BUSINESS CONFIDENCE, THE INVESTMENT OUT-  
LOOK, AND EXPORT PROSPECTS CONTINUE TO SAG. THERE IS  
EVIDENCE OF LARGE INVENTORY DECOMULATION IN LATE 1974,  
AND IT IS NOT CERTAIN IT HAS LEVELED OFF. UNTIL IT DOES,  
OUTPUT WILL CONTINUE TO DECLINE. THERE IS SOME FEELING  
THAT CONSUMER SPENDING, WHICH HAS HELD UP RATHER WELL, IS  
BEGINNING TO WEAKEN. FISCAL POLICY IS EXPANSIONARY BUT  
PUBLIC SECTOR DEFICITS HAVE BEEN MAINLY FINANCED THROUGH  
STRONG SALES OF GOVERNMENT SECURITIES (GILTS) TO THE NON-  
BANK PUBLIC. MONETARY POLICY IS MORE CAUTIOUS AS IN-  
FLATIONARY PRESSURE IS STILL STRONG, FED MAINLY BY WAGE  
PRESSURES. BUT INTEREST RATES ARE DECLINING AND BANK OF  
ENGLAND RESTRICTIONS TO LIMIT THE GROWTH OF MONETARY AG-  
GREGATES HAVE NOW BEEN SUSPENDED AS UNNECESSARY. THE  
"SOCIAL CONTRACT" CONTINUES TO RECEIVE MUCH ATTENTION FROM  
THE GOVERNMENT BUT LITTLE ADHERENCE FROM THE LARGE, STRONG  
PUBLIC SECTOR UNIONS. OTHER MODERATE GOVERNMENT MINISTERS  
HAVE SPOKEN OUT RECENTLY ON THE NEED FOR ADHERENCE TO THE  
CONTRACT, AND THEIR WORDS HAVE PROVOKED SOME PUBLIC CON-  
TROVERSY AMONG CABINET MEMBERS. WAGE INCREASES IN THE  
PRIVATE SECTOR HAVE DECREASED MARKEDLY HOWEVER. FOREIGN  
EXCHANGE RESERVES INCREASED IN FEBRUARY AS A RESULT OF  
FOREIGN CURRENCY BORROWING BY THE PUBLIC SECTOR.  
END SUMMARY

1. MONETARY POLICY. THE BANK OF ENGLAND (BOE) HAS SUS-  
PENDED THE SUPPLEMENTARY SPECIAL DEPOSITS SCHEME IN WHICH  
BANKS WHOSE INTEREST BEARING LIABILITIES GROWTH EXCEEDED  
1-1/2 PERCENT PER MONTH FROM THE FINAL QUARTER OF 1973  
HAD TO PAY SPECIAL DEPOSITS TO BOE. THE BANK HAS ALSO  
SUSPENDED THE 9-1/2 PERCENT LIMIT ON THE RATES PAID TO  
SMALL DEPOSITORS. BOTH THESE CHANGES REFLECT THE SHARP  
DECLINE IN INTEREST RATES ABROAD AND IN THE UK AND THE  
LOW GROWTH OF THE MONEY SUPPLY IN THE UK. THE SPECIAL  
DEPOSIT SCHEME WAS INTRODUCED TO RESTRAIN THE GROWTH OF  
THE MONEY SUPPLY AND THE INTEREST RATE LIMIT TO STABILIZE  
THE HOME MORTGAGE MARKET.

2. INTEREST RATES. BARCLAYS BANK CUT ITS BASE LENDING  
RATE TO 10.75 PERCENT FROM 11.5 PERCENT. BARCLAYS ALSO  
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PAGE 03 LONDON 03588 01 OF 02 080856Z

LOWERED TO 8 PERCENT FROM 9 PERCENT THE RATE PAID ON TIME  
BANKS HAVE NOT YET FOLLOWED SUIT.  
THE BASE RATE WAS 12 PERCENT THROUGH MOST OF 1974 AND FELL  
TO 11-1/2 PERCENT IN JANUARY OF THIS YEAR.

3. BUSINESS CONFIDENCE. THE MONTHLY FINANCIAL TIMES SUR-  
VEY OF BUSINESS OPINION INDICATES FURTHER DECLINES IN CON-  
FIDENCE AND BUSINESS PROSPECTS. EXPORT PROSPECTS ARE SEEN

FALLING AND NEW ORDER TRENDS HAVE COME DOWN IN THE LAST FOUR MONTHS. THERE ARE FEWER FIRMS NOW OPERATING AT CAPACITY AND INVENTORY LEVELS ARE STILL BELIEVED TOO HIGH.

4. INVESTMENT. MANUFACTURING INVESTMENT ROSE BY 10 PERCENT IN 1974 OVER 1973 WHILE TOTAL INVESTMENT ROSE BY ONLY 0.3 PERCENT. SURVEYS OF INVESTMENT INTENTIONS IN MANUFACTURING INDICATE A SHARP DROP OF 7 - 10 PERCENT THIS YEAR.

5. INVENTORIES. INVENTORIES OF FINISHED GOODS AT MANUFACTURING CONCERNS INCREASED BY 127 MILLION POUNDS (1970 PRICES) IN 3RD QUARTER 1974 AND BY 99 MILLION POUNDS IN 4TH QUARTER. RETAIL INVENTORIES OF SUCH GOODS DROPPED 28 MILLION AND 34 MILLION POUNDS IN THE TWO QUARTERS RES-

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PAGE 01 LONDON 03588 02 OF 02 080045Z

62

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DODE-00 PA-02 USIA-15 PRS-01 SAJ-01 /111 W

----- 079909

R 072003Z MAR 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 9074

INFO AMEMBASSY BERN

AMEMBASSY BONN

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UNCLAS SECTION 02 OF 02 LONDON 03588

PECTIVELY. INVENTORIES OF RAW MATERIALS FELL BY 46 MILLION POUNDS IN THE 4TH QUARTER AFTER AN INCREASE OF 103 MILLION POUNDS IN THE 3RD QUARTER.

6. OFFICIAL RESERVES. UK OFFICIAL RESERVES INCREASED BY \$231 MILLION DURING FEBRUARY TO \$7,064 MILLION. THE INCREASE RESULTED AFTER PUBLIC SECTOR FOREIGN CURRENCY UNCLASSIFIED

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PAGE 02 LONDON 03588 02 OF 02 080045Z

BORROWINGS OF \$40 MILLION AND A \$300 MILLION DRAWING ON THE HMG \$2.5 BILLION EURODOLLAR LOAN. THIS \$300 MILLION REPRESENTED THE FINAL DRAW AND EXHAUSTED THE TOTAL LOAN.

7. FOREIGN EXCHANGE AND GOLD:

	2/27	3/6	CHANGE
EXCHANGE RATE	\$2.4275	\$2.4285	UP \$0.0010
EFFECTIVE DEPRECIATION			
(PERCENT)	21.8	21.4	UP 0.4
GOLD	\$181.50	\$180.75	DOWN \$0.75

8. FORWARD DISCOUNT ON STERLING:

	2/27	3/6	CHANGE
1 MONTH	1.30	1.20	DOWN 0.10
3 MONTHS	3.50	3.55	UP 0.05
6 MONTHS	6.63	6.70	UP 0.07

(ALL FIGURES IN CENTS)

9. EURODOLLAR INTEREST RATES:

	2/27	3/6	CHANGE
1 MONTH	6-5/8	6-1/2	DOWN 1/8
3 MONTHS	7-1/2	7-1/4	DOWN 1/4
6 MONTHS	7-13/16	7-5/8	DOWN 3/16

10. LOCAL AUTHORITY DEPOSIT RATES:

	2/27	3/6	CHANGE
1 MONTH	11-1/4	10-3/4	DOWN 1/2
3 MONTHS	11-1/2	11-1/8	DOWN 3/8
6 MONTHS	11-1/2	11-3/16	DOWN 5/16

11. THE MINIMUM LENDING RATE DROPPED TO 10-1/4 PERCENT FROM 10-1/2 PERCENT ON FRIDAY, MARCH 7, 1975.

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## Message Attributes

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Margaret P. Grafeld  
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05 JUL 2006

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**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006